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Regina

CITY OF REGINA

Brief to the Province of Saskatchewan

November 8, 2002

Financing Canadian Cities

Introduction

Over the last several years there have been many reports or documents released by a range of organizations that have addressed the role that cities play in the provincial and national economies and the challenges being faced by cities to adequately fulfill the role. The information includes:

- Province of Saskatchewan – In June 2001, the Province released the document, ***Partnership for Prosperity – Success in the New Economy***. The document was also referenced as "An Economic Strategy – Towards 2005".

- Prime Minister's Caucus Task Force on Urban Issues – In April 2002, the task force issued an interim report, ***Canada's Urban Strategy – A Vision for the 21st Century***. The report can be accessed through the Internet at www.liberal.parl.gc.ca/urb.

- Federation of Canadian Municipalities (FCM) – In May 2001, FCM released the report, ***Early Warning: Will Canadian Cities Compete?*** The report can be accessed through the Internet at www.fcm.ca.

- TD Economics – In April 2002, this group, part of the TD Bank Financial Group released a report, ***A Choice between Investing in Canada's Cities or Disinvesting in Canada's Future***. The author of the report is Derek Burleton. The report can be accessed through the Internet at www.td.com/economics.

- Canada West Foundation – This organization is a Calgary based non-partisan non-profit public policy research institute founded in 1971. Reports published by the Canada West Foundation can be accessed through the Internet at www.cwf.ca. The Foundation undertook a three-year project to enhance public awareness of challenges and opportunities for the largest western Canadian cities. Regina is a participant, including financial participant, in the project. Reports referenced in this document include:

  - June 2000 – ***Financing Western Cities: Issues and Trends*** – The author of the report is Dr. Loleen Youngman Berdahl.

  - October 2001 – ***Dollars and Sense: Big City Finances in the West, 1990-2000*** – The author of the report is Casey Vander Ploeg.

  - January 2002 – ***Framing a Fiscal Fix-Up: Options for Strengthening the Finances of Western Canada's Big Cities*** – The author of the report is Casey Vander Ploeg.

  - September 2002 – ***Big City Revenue Sources: A Canada-U.S. Comparison of Municipal Tax Tools and Revenue Levers*** – The author of the report is Casey Vander Ploeg.

- C. D. Howe Institute Commentary – This publication provides a periodic analysis and commentary on current public policy issues. The publication can be purchased from the

organization. The web site for the organization is www.cdhowe.org. Recent publications referenced in this document include:

- November 2000 – ***Municipal Finance in a New Fiscal Environment*** – The author of the report is Harry Kitchen.

- February 2002 – ***Municipal Finance and the Pattern of Urban Growth*** – The author of the report is Enid Slack.

- Canadian Taxpayers Federation – In May 2002, this organization released a report, ***Filling the Infrastructure Gap***. The report can be accessed through the Internet at www.taxpayer.com.

- Transport Canada – In June 2001, the Department released a report resulting from a review of *The Canada Transportation Act*. The report is called ***Vision and Balance; Canada Transportation Act Review***. Chapter 10 – Paying for Roads and Chapter 12 – The National Interest in Urban Transportation are the sections of the report used as background in this document. The report can be accessed through the Internet at www.tc.gc.ca.

In addition to these publications, there have been numerous articles in local and national newspapers focussed on the fiscal and service issues faced by cities.

A specific section of the recent Throne Speech for the federal government titled **Competitive Cities and Healthy Communities** referenced modern infrastructure as the key to the prosperity of cities and the health of communities.

The amount of material is substantial. What is compelling is the consistency of the message.

Why is the Fiscal Position of Cities Important?

In June 2001, the Province released a document **Partnership for Prosperity – Success in the New Economy**. The document, in the section "Strong Urban Communities", includes the following comments:

> Our urban communities are vital economic catalysts. Vibrant clusters of businesses, research institutions and entrepreneurs spur growth in a wide range of sectors and contributes to the competitiveness of Saskatchewan products around the globe.
>
> **The government will continue to work with its community partners, providing the infrastructure to support development.**
>
> Saskatchewan cities are not just economic generators – they are also great places to live and raise a family! Affordable housing, a sense of community and a wide range of cultural activities all contribute to a quality of life that balances economic opportunity with community spirit and healthy, stable relationships.

Increasingly, international research points to the economic value of safe communities, clean environments, and a spirit of community involvement. Nowhere is this better seen than in Saskatchewan.

The Province's acknowledgement of the importance of cities to Saskatchewan's economic prosperity is consistent with the following comments from other sources.

> We are left with a hard, plain truth. Societies and civilizations in which the cities stagnate, don't develop and flourish further. They deteriorate. **The financial and economic health of cities constitutes the heart and soul of any nation's standard of living.** (**Cities and the Wealth of Nations**, Jane Jacobs, 1984, Random House)

> **Experts agree on the growing importance of cities as the key to Canada's future prosperity.** It is now more important than ever for national governments to inspire and provide opportunities for balanced social and economic growth in urban regions. (**Canada's Urban Strategy, a Vision for the 21st Century**, Prime Minister's Caucus Task Force)

> Canada's evolution to an urban economy has put pressure on all urban centres to sustain economic development and growth. For the country to be economically competitive on a global scale, cities must attract the most innovative and dynamic entrepreneurs and companies. Companies are looking for centres of learning and innovation, skilled workers, upgraded infrastructure, a competitive cost of doing business, and the highest quality of life. **To compete globally, our urban areas must have the appropriate balance and appeal of infrastructure, amenities, lifestyle, and high environmental quality.** (**Canada's Urban Strategy, a Vision for the 21st Century**, Prime Minister's Caucus Task Force)

> **Cities are the primary engines of economic growth.** Without improvements to core infrastructure, they will not realize their full economic potential. (**Filling the Infrastructure Gap**, Canadian Taxpayers Federation)

> Until recently, the role of Canada's cities was often overlooked in discussions of nation-wide challenges. However, it is becoming overwhelmingly apparent **that the long-term performance of the Canadian economy and Canadian living standards will hinge on the fortunes of our cities.** Urban communities account for roughly four-fifths of Canada's population and economic activity – a staggering share that is likely to rise even further down the road. (**A Choice between Investing in Canada's Future or Disinvesting in Canada's Future**, Derek Burleton)

> If Canadians have any hope of raising their living standards above U.S. levels over the next 15 years, then **the status quo is not an option. A new way of thinking is urgently required – one that puts the affairs of cities front and centre on Canada's economic and policy radar screen.** New and more flexible sources of funding will certainly be a vital component of any new deal. But, without giving cities a commensurate increase in policy-making flexibility, the system will surely fail. (**A Choice between Investing in Canada's Future or Disinvesting in Canada's Future**, Derek Burleton)

> Due to urbanization and globalization, **cities are clearly emerging as Canada's leading social and economic drivers.** Cities are economic hubs, and increasingly cities are taking an active role in economic development and growth. **At the same time, municipalities are assuming greater responsibilities moving beyond traditional urban issues such as policing and street services to meet broad community needs, such as services for the homeless and support for local arts and culture.** (**Financing Western Canadian Cities: Issues and Trends**, Dr. Loleen Youngman Berdahl)

> Local conditions such as the health and livability of cities are becoming more important. Decisions about investment are now being driven less by traditional notions of comparative advantage (natural resources and proximity to markets) and more by the ability of local communities to attract talent that can locate anywhere in the world to do almost anything. **If Canadians are concerned about their future economic prospects, their standards of living, and ways to enhance the social fabric of the country, then they must ensure that their cities are highly livable, well operated, and appropriately financed.** (**Framing a Fiscal Fix-Up: Options for Strengthening the Finances of Western Canada's Big Cities**, Casey Vander Ploeg)

> **Urban areas are quickly becoming an ever more important aspect of Canada's politcal, economic, and social fabric.** In the last decade, there has been a qualitative and quantitative change in what citizens are expecting from their local governments. In many ways, these increased expectations may not be met with the current resources available to city governments. (**Framing a Fiscal Fix-Up: Options for Strengthening the Finances of Western Canada's Big Cities**, Casey Vander Ploeg)

There is a clear consensus that has developed with respect to the importance of cities in the support and creation of economic activity. As importantly, there is a clear consensus that the quality of life available within Canadian cities is key to enabling cities to fully contribute to their role in supporting economic activity.

At least two questions have to be considered:

1. Are the programs and services delivered by Regina (or other cities in Saskatchewan), an important part of the foundation needed to generate and sustain economic development?

2. Is Regina (or other cities in Saskatchewan) positioned to meet the fiscal challenge to sustain and expand the community infrastructure required to support, generate and sustain economic development and the quality of life expected by citizens?

Why Are Cities Fiscally Stressed?

Simply put, cities do not have sufficient revenues to meet the costs of services and infrastructure expected within a city. Cities also have expenditure pressures, particularly for the capital funding necessary to deal with an ageing infrastructure.

The remainder of this section will focus on financial trends and comparisons. At the end of this section, there will be a series of comments from other sources echoing the concern regarding the revenue generating capacity of cities.

Trend #1 – Changes in the Distribution of the Canadian Tax Dollar

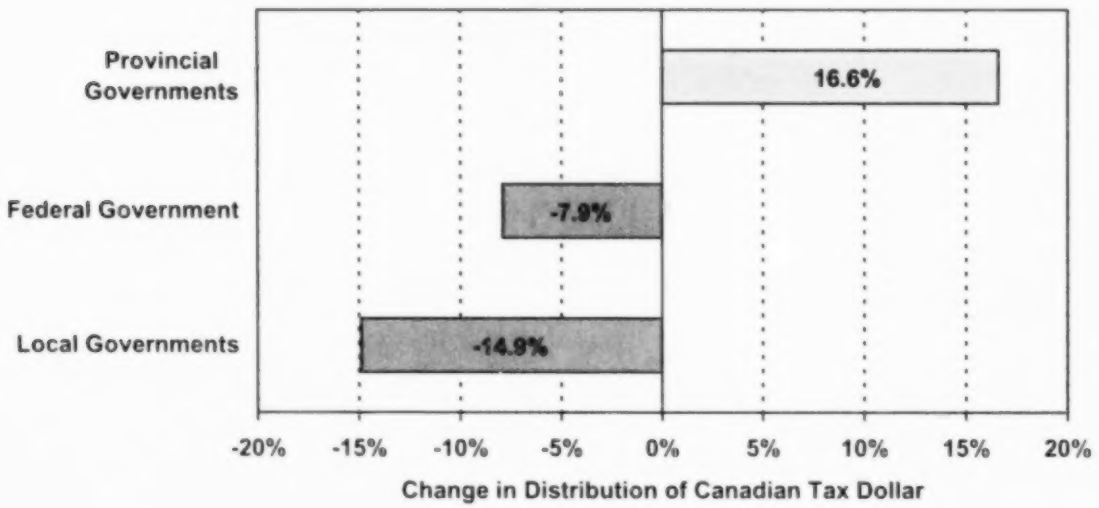
The following table shows the distribution of Canadian Tax Dollars between the three levels of government from 1961 to 1999.

Distribution of Canadian Tax Dollars

Year	Federal Government	Provincial Governments	Local Governments
1961	62.5%	20.3%	17.2%
1971	53.0%	33.0%	14.0%
1981	53.0%	35.6%	11.4%
1991	49.1%	39.7%	11.2%
1999	48.8%	41.5%	9.7%

The next graph shows the relative change (from 1981 to 1999) for the three levels of government in their share of the Canadian Tax Dollar.

Change in Distribution of the Canadian Tax Dollar - 1981 to 1999



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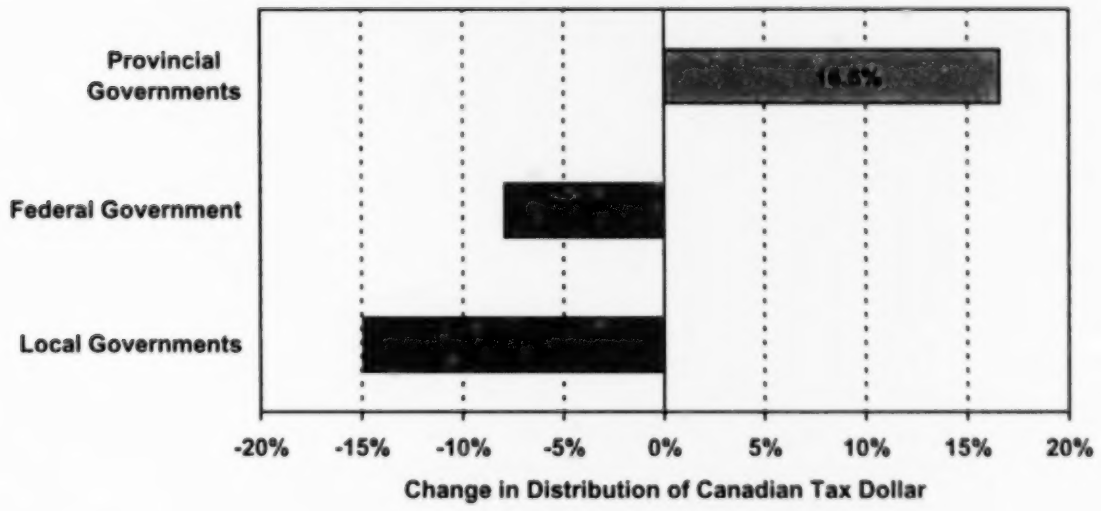
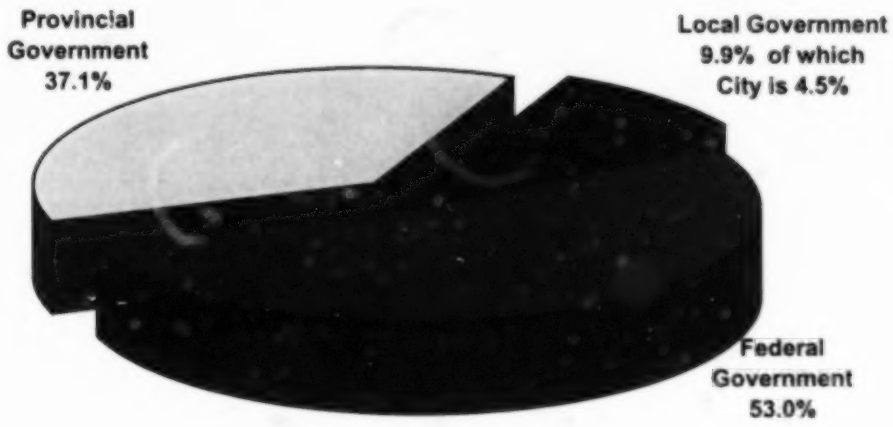


The trend shown in the graph would be even more dramatic if the comparison was from 1961 or 1971. The change is significant. **While municipalities receive a smaller portion of the tax pie, provinces receive a larger portion of the tax pie.** Total taxes have increased over time, however the share available to local government has been shrinking.

In March 2002, SaskTrends Monitor, at the request of the City, prepared an analysis of the distribution of the taxes paid by Regina residents. The analysis was for the taxes paid in 2000. The analysis did not include the taxes paid by Regina businesses. The following graph shows the distribution of taxes.

Distribution of Taxes Paid By Regina Residents – 2000
(Total Estimated Taxes Per Household of $20,147)



The local government share of the taxes includes the property taxes for the City, the School Boards and the Library Board.

Trend #2 – Shift in Local Tax Distribution to Education

In addition to the shrinking share of the total tax pie, the portion of property taxes collected by the City as compared to the portion collected for the other taxing authorities has changed significantly over the last 20 years as detailed in the following table.

Distribution of Regina's Property Taxes

Year	City Share	Library Share	School Boards Share
1980	50.5%	5.5%	44.0%
1985	48.3%	5.4%	46.3%
1990	46.6%	4.9%	48.5%
1995	44.8%	4.8%	50.4%
2002	46.0%	4.8%	49.2%

The City and Library share of property taxes has been reduced over the last 20 years, while a greater share of the tax base has shifted to the School Boards. The shift is in large part due to provincial education grants not keeping pace with the increased cost for education.

The next table provides a comparison of the school share of taxes in several provinces. The data is from the Edmonton Tax Survey.

Education Share of Property Taxes

Year	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario
1981	49.9%	45.2%	48.7%	43.2%	48.4%
1986	39.0%	49.6%	50.3%	45.3%	43.0%
1991	43.0%	42.2%	51.9%	44.5%	52.4%
1996	42.1%	53.9%	53.3%	44.0%	53.3%
2001	40.8%	45.2%	52.7%	49.4%	28.6%

Saskatchewan has a higher percentage of property taxes required for education than the four other provinces. The percentages for Alberta and Manitoba would be even lower if business taxes were included in the calculations, since the business tax is not shared with the school boards.

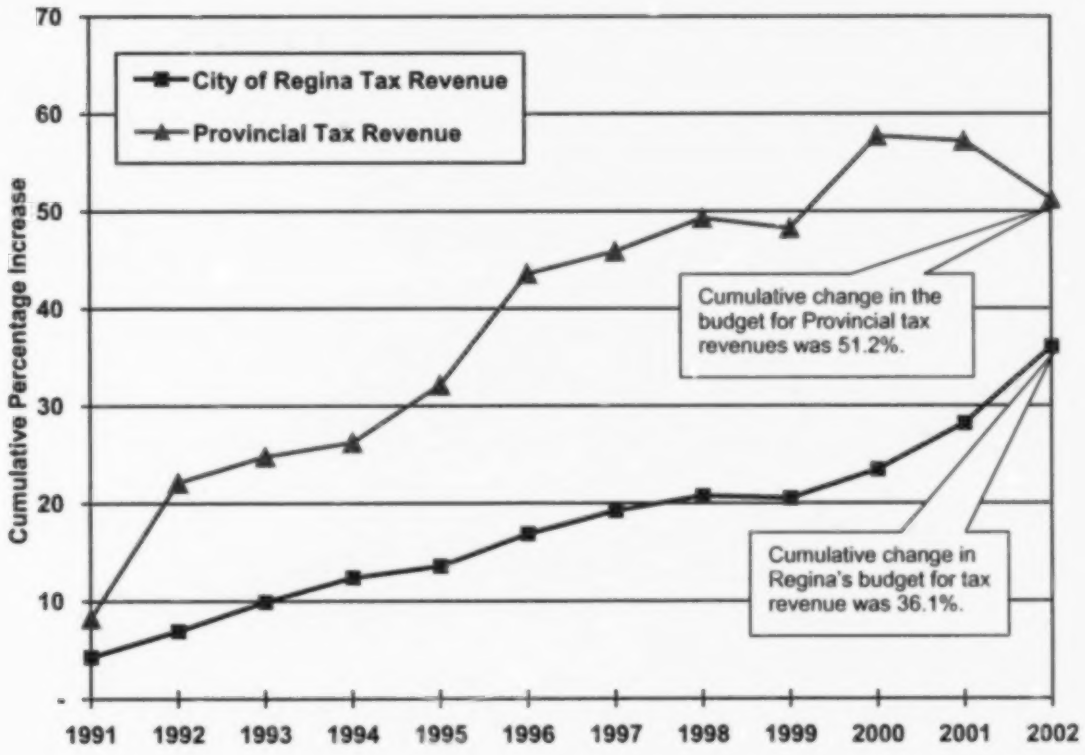
The portion of the property tax base that goes to education is a particular concern for Saskatchewan cities. There is a need to ensure that education is properly funded. The concern is the extent to which the property tax base is being used to provide the funding. The increase in the portion of the property tax base that is going to education is a result of insufficient growth in provincial funding for education. In Saskatchewan, there is a greater share of property taxes for education than in the other western provinces. In some provinces in Atlantic Canada, there is no education property tax.

Trend #3 – Growth Rates for Local versus Provincial and Federal Taxes

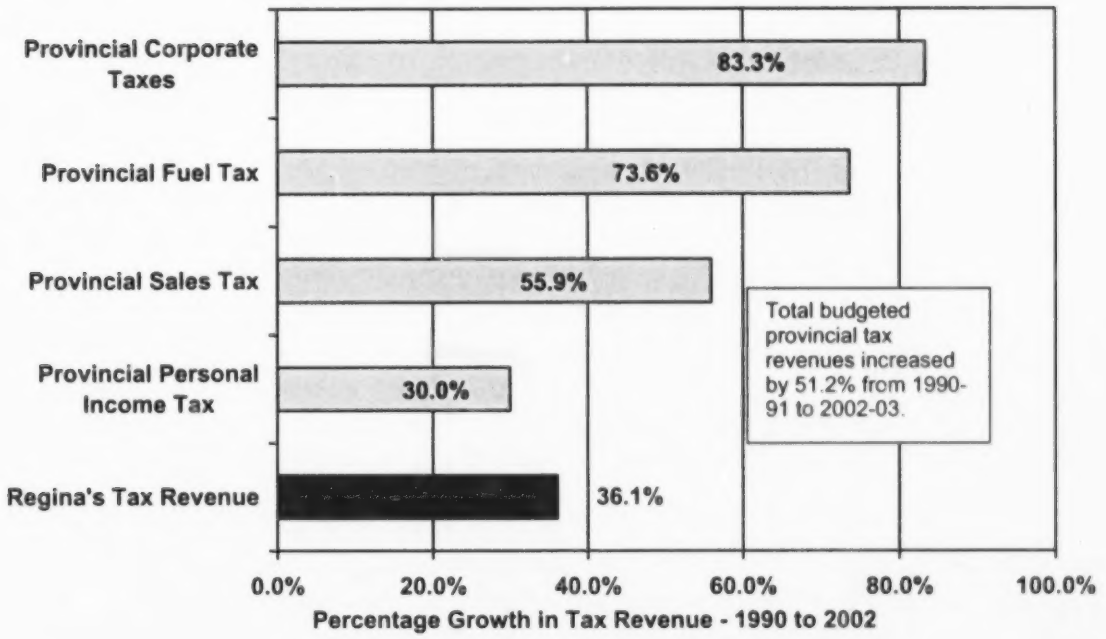
A major component of the change in the fiscal fortunes of the senior governments has been increased tax revenues, driven in large part by a strong economy that has increased employment, increased corporate profits and increased salaries and wages.

The next two graphs provide comparisons of tax growth for the Province and the City of Regina. The graph below is the cumulative percentage change in budgeted tax revenues from 1990. The graph on the next page shows the increase since 1990 for selected provincial taxes as compared to Regina's property tax. The growth rates are calculated based on budgeted revenue, not actual revenues for the year.

Cumulative Growth in City of Regina and Provincial Tax Revenue
(1990 to 2002 for Regina; 1990-91 to 2002-03 for Province)



Comparison of Percentage Growth in Tax Revenue
(1990 to 2002 for Regina; 1990-91 to 2002-03 for Province)



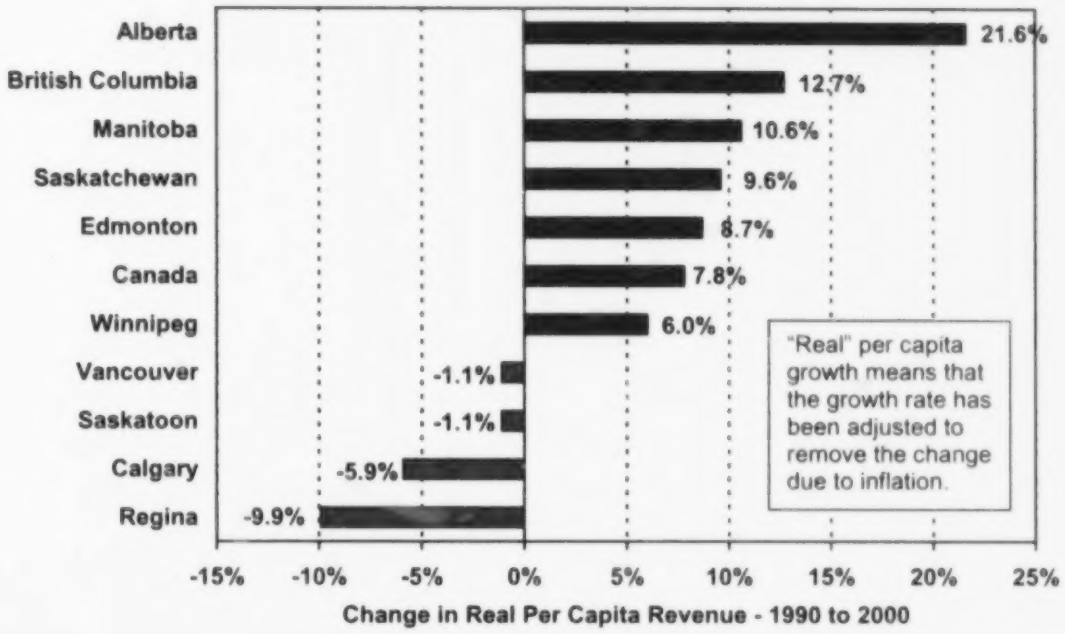
In contrast to the tax structures of the senior governments, municipal property tax does not have the growth potential that occurs with other taxes. Provincial tax revenues are more diversified. The growth in provincial taxes (or federal taxes) occurs quite differently than the growth in local property taxes. All taxes are based on the following calculation:

Tax Base x Tax Rate = Tax Revenues

Most tax systems have a tax base that increases through broadening of the tax base and an increase in the value of the tax base. As an example, for personal income tax the tax base is broadened as more people join the workforce. The value of the tax base increases as wages and salaries increase over time. An income tax rate can remain unchanged or even decrease and total taxes will increase due to growth in the tax base. For property tax, growth in the tax is very limited, since assessment growth from new development is limited.

The next graph is replicated from the data in the Canada West Foundation report, **Dollars and Sense: Big City Finances in the West, 1990 - 2000**. The graph compares the real (inflation adjusted) revenue growth of the six cities examined in the report, the federal government and the four western provinces.

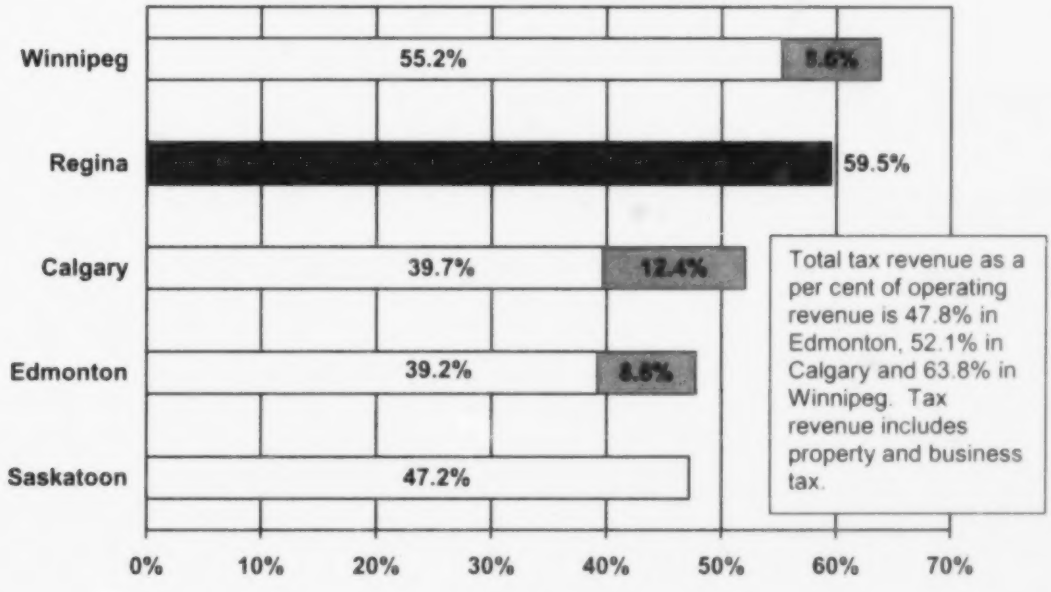
Real Per Capita Revenue Growth – 1990 to 2000



The extent to which cities rely on property tax revenue varies significantly. The next graph compares the percentage of total operating revenue generated through property (or business) tax in the major prairie cities.

2002 Taxation Revenue – Includes Grants in Lieu

(As A Percent of General Operating Revenue)



Comparison of Percentage Growth in Tax Revenue
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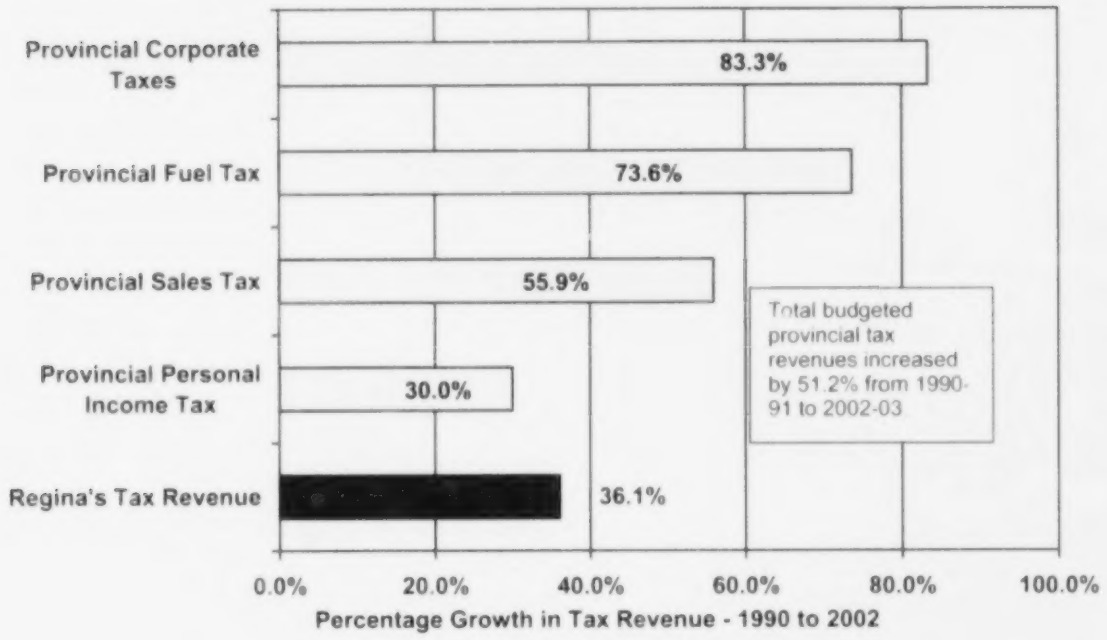

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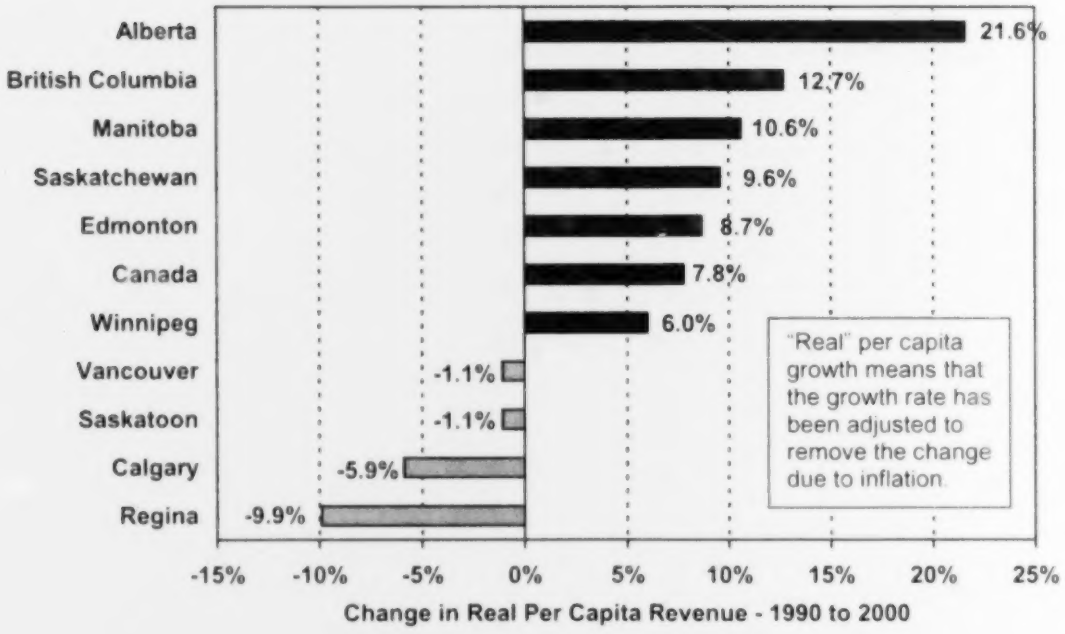

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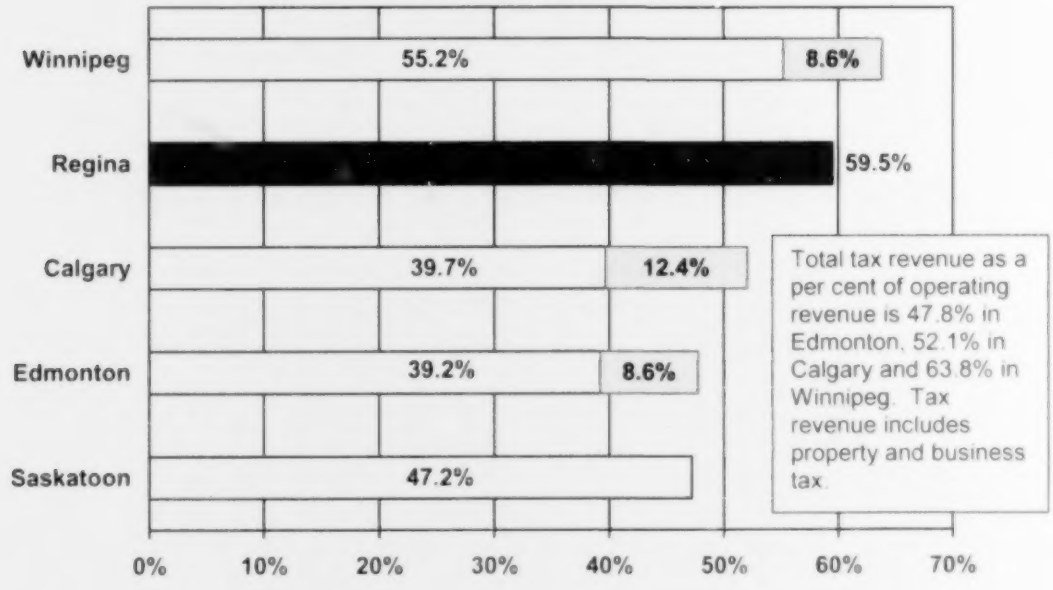
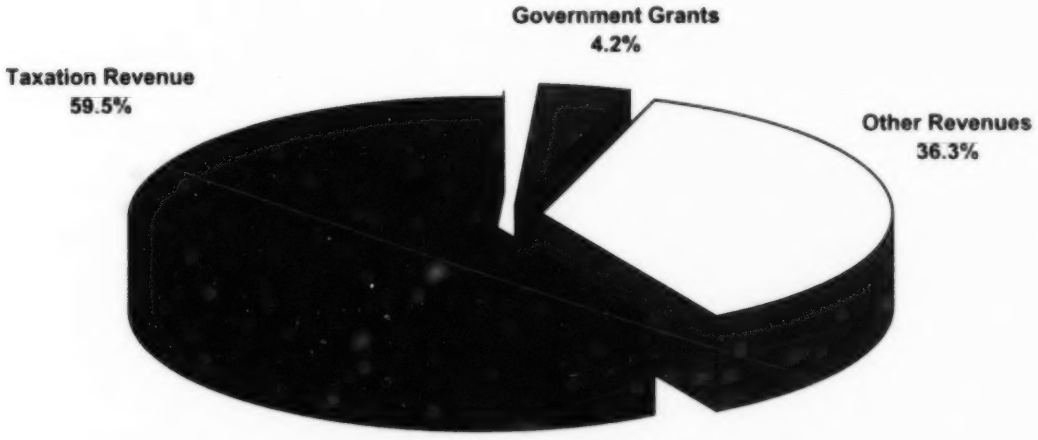


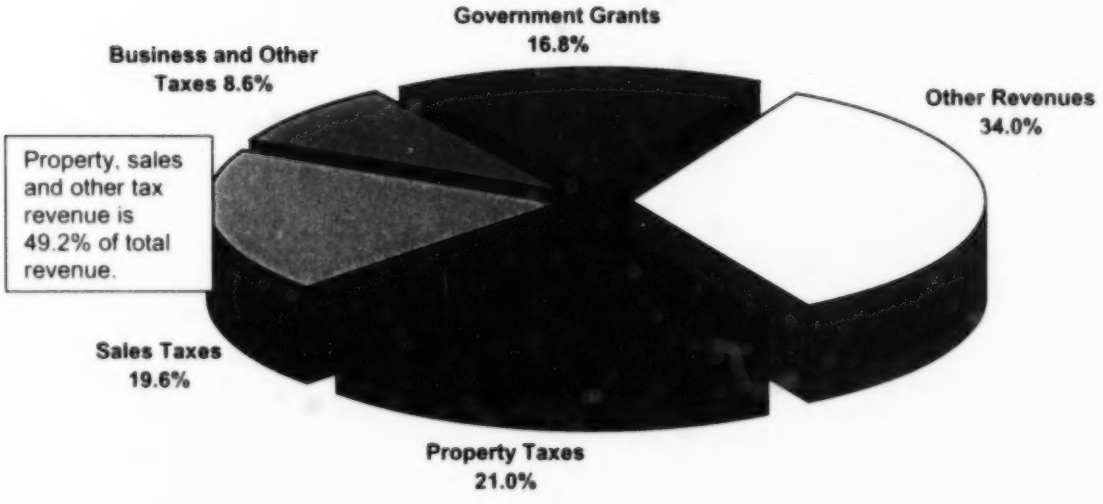
The Canada West Foundation report, **Big City Revenue Sources: A Canada – U.S. Comparison of Municipal Tax Tools and Revenue Levers**, examined the revenues of six Canadian cities (Vancouver, Calgary, Edmonton, Regina, Saskatoon and Winnipeg) and six U.S. cities (Seattle, Denver, Salt Lake City, Lincoln, Minneapolis and Boise).

The revenue data for the U.S. cities included general operating revenue along with revenue from utilities and enterprise funds. The graphs below and on the next page compare the 2002 operating revenue distribution for Regina with the average for the six U.S. cities – the distribution excludes utilities and enterprise revenues and utility transfers are classified as other revenue.

City of Regina – Distribution of Operating Revenue – 2002



Average of U.S. Cities - General Operating Revenue – 2000

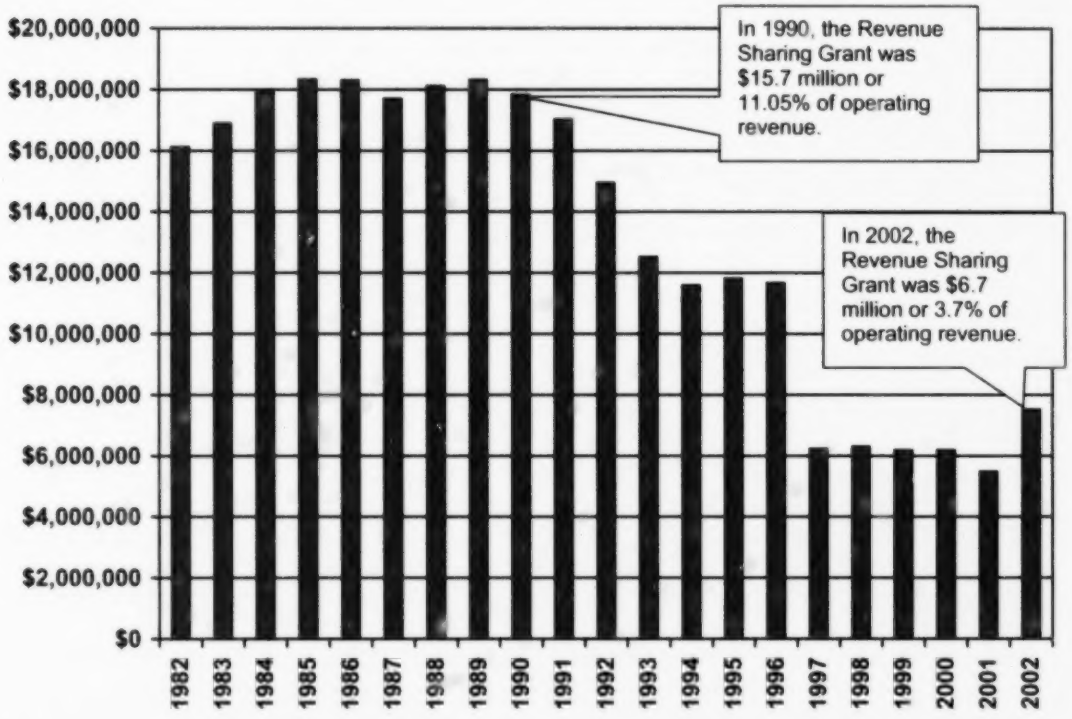


It is evident from the graphs that U.S. cities rely to a lesser extent on taxes, and have access to a greater range of taxes than do Canadian cities.

Trend #4 – Reductions in Provincial Operating Grants

Although there was an increase in the Revenue Sharing Grant in 2002, over the last 10 – 15 years, municipalities have experienced a significant decrease in operating grants from the Province. The next graph highlights the trend in provincial operating grants from 1982 to 2002.

Provincial Operating Grants – 1982 to 2002

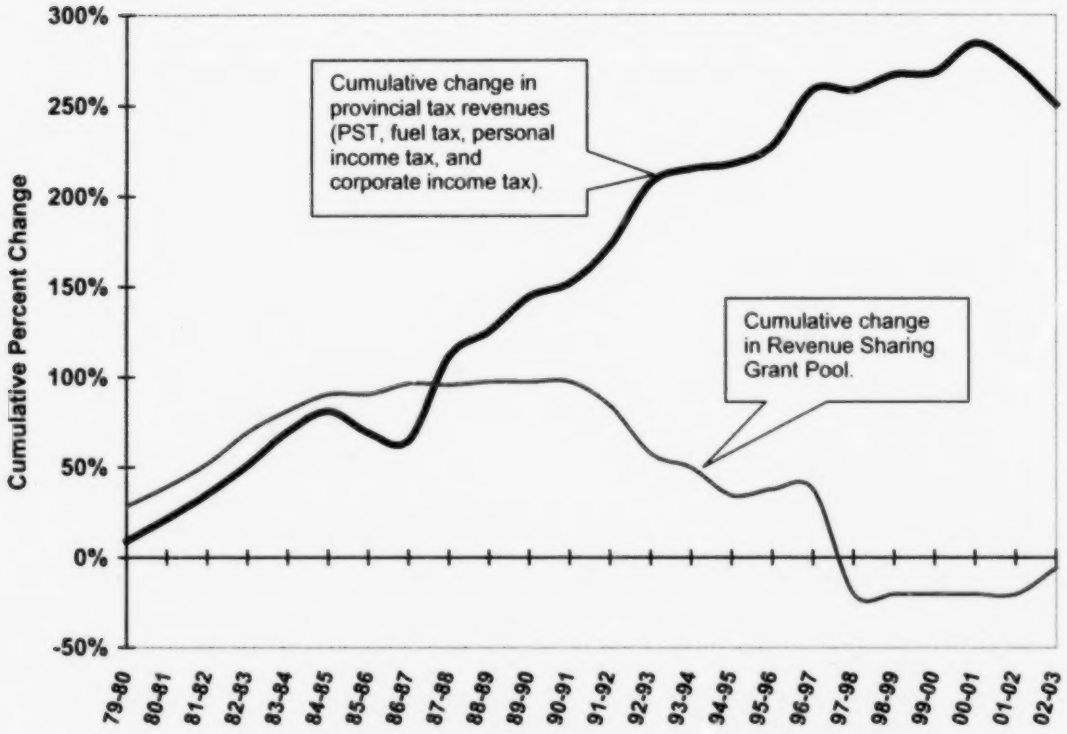


The major grant is the revenue sharing grant. From 1988 to 2001, the Revenue Sharing Grant to Regina decreased by $10,234,300. The Province increased the Revenue Sharing Grant Pool in 2002, with City's share of the increase about $1.2 million.

The paratransit grant has increased since 1990, but the grant has not kept pace with service needs. The Province funds paratransit service through both operating and capital grants. There was an increase in the paratransit grant in 2002, and a further increase in the allocation is projected for 2003, but the grant still falls short of the Provincial policy of funding 50% of the net cost of the program.

In 1978, the Province introduced the Revenue Sharing Grant Program to replace a variety of provincial grant programs. The Revenue Sharing Grant Program was to be tied to four provincial tax bases (retail sales tax, fuel tax, personal income tax and corporate income tax), with the size of the pool increasing or decreasing with the change in the tax base. The next graph compares the change in the Revenue Sharing Grant pool since its inception and the growth in the combined tax revenue for the province from the four taxes that were linked to the Revenue Sharing Grant.

Cumulative Change in Provincial Taxes and Revenue Sharing Grants



Trend #5 – Reductions in Provincial Capital Grants

At one time provincial grants were a major source of capital funding for the City. Most capital grant programs have been eliminated. The next graph details the level of provincial capital grants from 1982 to 2002. Points to note about the information in the table includes:

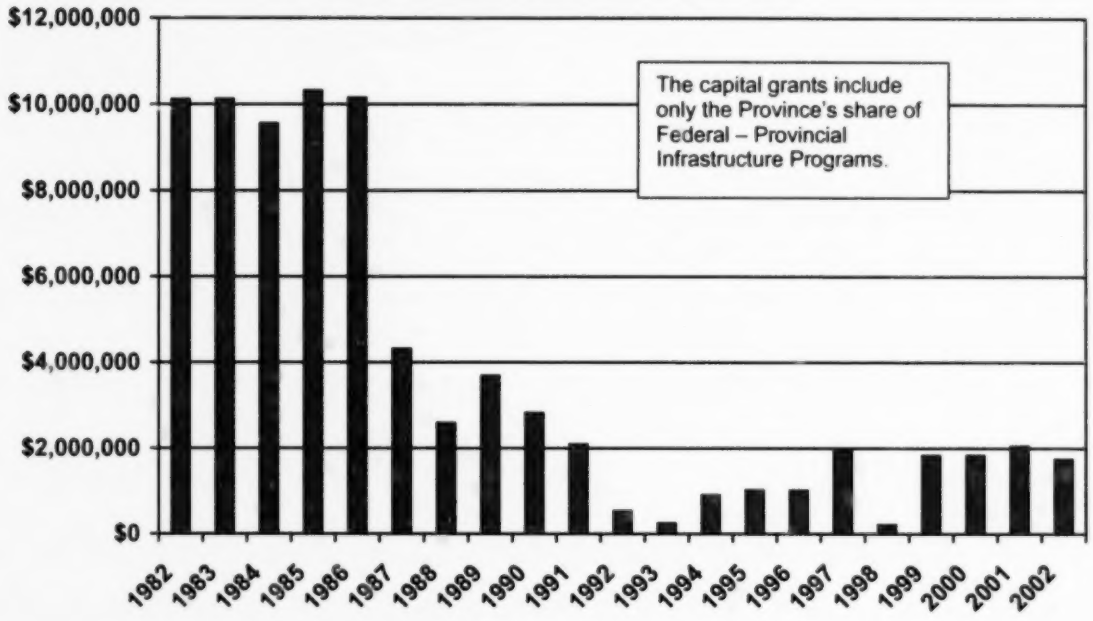
- In 1984 – 1986, capital grants received included $5.0 million in total over the three years as the Province's contribution to the Granular Activated Carbon Filtration Plant.

- In 1986 and 1987, a total of $4.0 million was received as the Province's contribution for the Western Canada Summer Games.

- There have been three infrastructure programs. In 1994 through 1997 there was a federal provincial program. In 1999 and 2000 there was a provincial infrastructure program, and starting in 2001 there was another federal provincial infrastructure program. The table includes only the provincial share of infrastructure funding, and does not include the federal share of the grant.

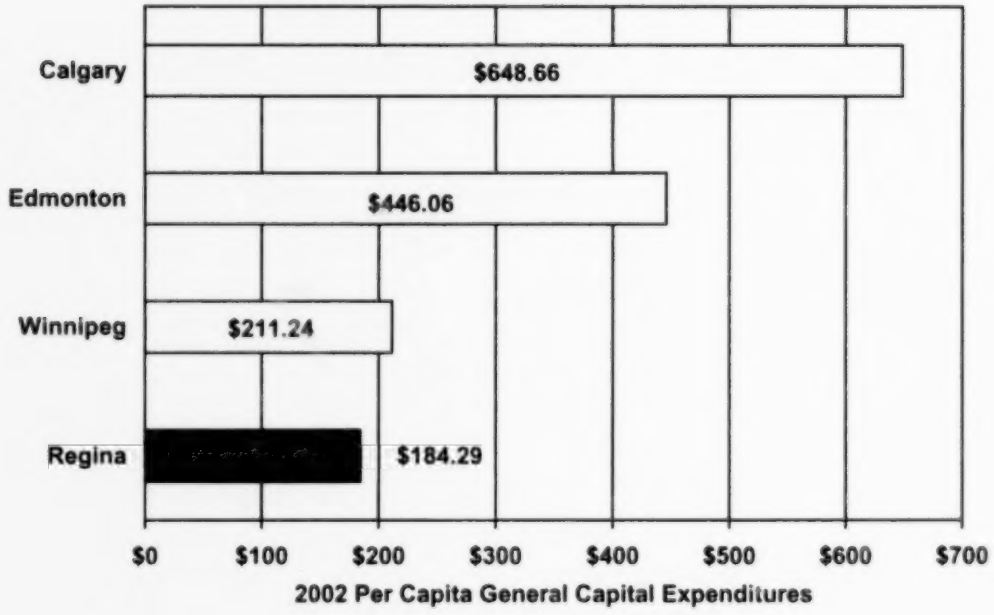
Grant amounts are reflected in the year of commitment, which at times will vary from the year of payment.

Provincial Capital Grants – 1982 to 2002



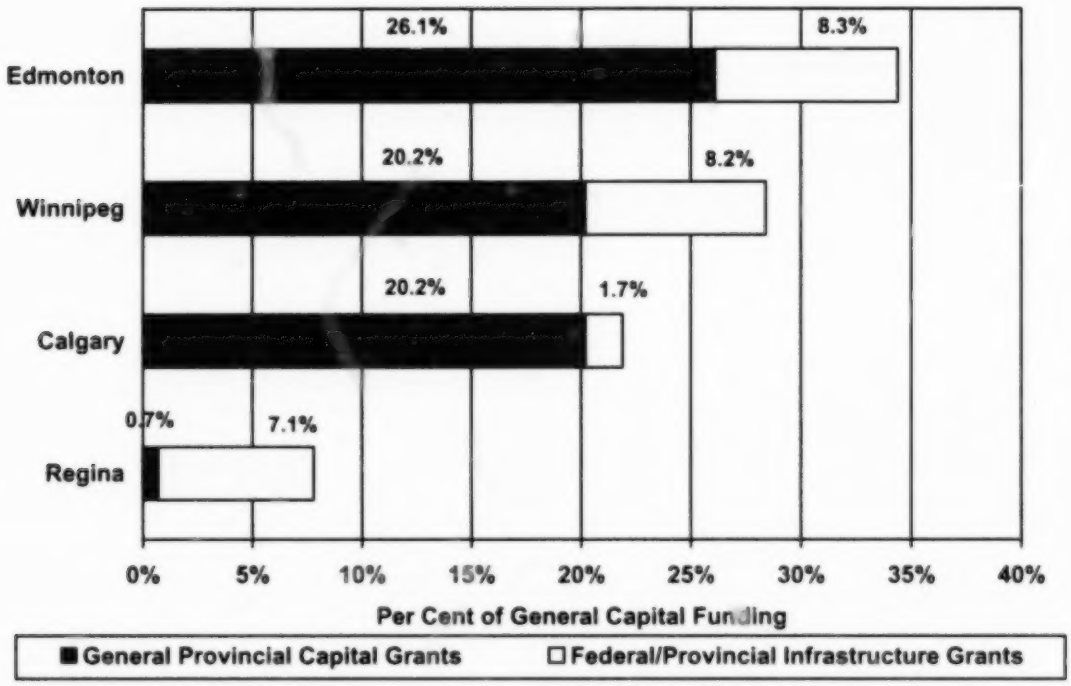
The amount of capital expenditure and sources of capital funding vary considerably amongst the major provincial cities. The following graphs provide a comparison of the capital expenditures and capital funding (excluding utility, library, drainage and EMS capital) for Calgary, Edmonton, Winnipeg and Regina.

2002 Capital Expenditures – Per Capita
(Excluding Utilities, Drainage, Libraries & EMS)



There is a significant difference in the method of funding capital expenditures in the four cities. The next graph shows the percentage of the total capital funding from grants. The balance of the funding is from the operating budget, internal reserves or other external sources.

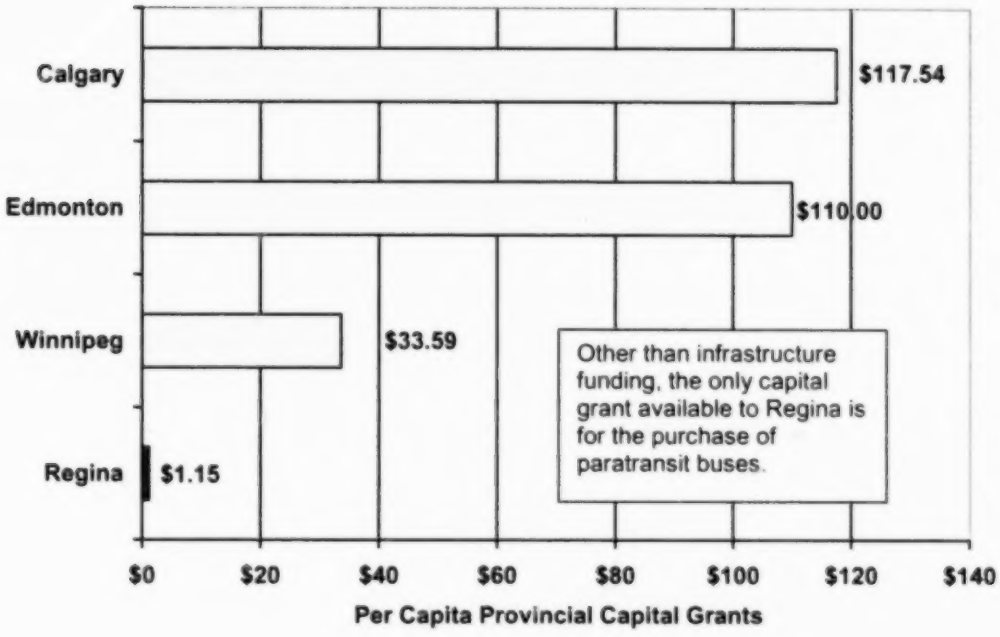
Sources of Capital Funding – 2002 General Capital Program



Note – For Calgary, a significant portion of their federal-provincial infrastructure grant funds are allocated to other projects in the capital program. All cities have a portion of their infrastructure funds allocated to other projects.

The next graph compares the provincial capital grants excluding the federal provincial infrastructure grants, for Calgary, Edmonton, Winnipeg and Regina. The grant funding is the per capita funding shown in the 2002 General Capital Program for each city.

Provincial Capital Grants – 2002 General Capital Program
(Excludes Federal Provincial Infrastructure Grants)



Summary

The trend information provides quantitative information on the operating and capital revenue available to cities. The dilemma faced by cities and in particular Saskatchewan cities is summarized in the following points:

- **The major revenue source for cities is property tax. There is limited growth in the property tax base as compared to the growth in the tax bases used by the federal and provincial governments.**

- **Canadian cities are, for the most part, limited to property taxes for tax revenue, whereas U.S. cities have access to a wider range of taxes.**

- **The portion of the local property tax base that is directed to education in Saskatchewan is high in relation to other provinces.**

- **Provincial operating and capital grants have been significantly reduced, and in some cases eliminated over the last 10 – 15 years. While most provinces have reduced operating grants, the capital grants available in other provinces are higher than that available in Saskatchewan.**

Is there a need to change, or can the status quo prevail? The following is a range of comments from the various reports outlined earlier in this section.

The property tax is inherently flawed as a source of funding for cities' growing needs. (**A Choice between Investing in Canada's Future or Disinvesting in Canada's Future**, Derek Burleton)

One of the recurring challenges that hinders economic growth and development is the dependence on property taxes as the largest source of revenue for municipal governments. (**Canada's Urban Strategy, a Vision for the 21st Century**, Prime Minister's Caucus Task Force)

It is unreasonable to expect one tax alone to carry the burden of financing a large city. Sales taxes, particularly when applied to a broad base, are much better tools for capturing revenue from outsiders, for example. (**Big City Revenue Sources: A Canada – U.S. Comparison of Municipal Tax Tools and Revenue Levers**, Casey Vander Ploeg)

There are striking differences between western Canadian cities and their U.S. counterparts in terms of the tax tools and revenue levers at their disposal, and while the potential impact of this on western Canada's competitive position is not equally transparent, there are warning signs. (**Big City Revenue Sources: A Canada – U.S. Comparison of Municipal Tax Tools and Revenue Levers**, Casey Vander Ploeg)

Federal and provincial governments clearly have access to a greater variety of revenue sources. **The greater diversity of revenue sources, combined with the revenue-generating potential of these sources, is a significant fiscal advantage for Canada's senior governments.** (**Financing Western Canadian Cities: Issues and Trends**, Dr. Loleen Youngman Berdahl)

If cities continually find themselves underfunded – without the resources to finance critical investments in infrastructure and to deliver a package of quality services at an affordable price – they will fail in the highly competitive global race to attract external investment. The result could be that the larger regional, provincial and national economies will operate below their potential. More fundamentally, that potential itself will fail to grow. (**Dollars and Sense: Big City Finances in the West, 1990-2000**, Casey Vander Ploeg)

Clearly, city revenues fail to keep pace with growth, and much of the failure can be explained by the fact that their tax base is limited to the property tax, which links only to one aspect of the economy – real estate. Provincial and federal taxes capture the full range of economic activity that constitute the provincial and national GDP, and have built-in mechanisms that respond to growth. In short, population growth and the pressures of a growing economy are less a gain for cities and more of a burden. **Cities pay for the growth and provincial and federal governments reap the rewards.** (**Dollars and Sense: Big City Finances in the West, 1990-2000**, Casey Vander Ploeg)

If cities continue to bear the brunt of the cost associated with expanding populations and the demands of a growing economy, their ability to provide adequate municipal services and

infrastructure to both citizens and businesses will always be insufficient. The result will be a loss of competitiveness for the city, which also impacts the larger provincial and national economies. (**Dollars and Sense: Big City Finances in the West, 1990-2000**, Casey Vander Ploeg)

Municipal governments in the United States operate within a more permissive fiscal framework than their Canadian counterparts. Like Canada, municipal governments in the U.S. rely on property taxes as the single largest revenue source. **Unlike Canada, municipal governments in the U.S. draw from a much wider array of financing mechanisms.** (**Early Warning: Will Canadian Cities Compete?** Federation of Canadian Municipalities)

Western Canadian cities find themselves in a "revenue squeeze". Program spending by most large western cities (in real per capita terms) has fallen throughout the 1990s, and many have been unable to finance badly needed infrastructure. The fiscal challenges extend beyond recent belt-tightening. They are also the result of structural fiscal challenges that are becoming increasingly difficult for cities to handle given the policy tools at their disposal. (**Framing a Fiscal Fix-Up: Options for Strengthening the Finances of Western Canada's Big Cities**, Casey Vander Ploeg)

Only the provinces can ensure that municipal revenue-raising capacity better matches expenditure responsibilities. To mend the growing fiscal gap, provinces first need to consider providing cities with access to new tax tools or creating innovative revenue-sharing formulas that capture the growth potential of other taxes. (**Framing a Fiscal Fix-Up: Options for Strengthening the Finances of Western Canada's Big Cities**, Casey Vander Ploeg)

Given the multiplicity of challenges facing Canadian cities today, a new way of thinking is required – one that puts the affairs of cities front and centre on Canada's economic and policy radar screens. In many cities, the infrastructure is eroding. **Social housing, water systems, sewers, roads and public transit systems all require re-investing, but cash-strapped municipalities are in no position to deliver.** (**A Choice between Investing in Canada's Future or Disinvesting in Canada's Future**, Derek Burleton)

Another significant threat to the quality of life in Canada's urban areas is the erosion of city infrastructure. Until recently, the relative youth of Canadian cities meant that the pressure on Canadian governments to re-invest in infrastructure was relatively modest compared to that faced by their U.S. and European counterparts. But, it is becoming evident to most Canadians that their **cities are showing distinct signs of strain. Merely maintaining existing roads, bridges, transit systems and other types of infrastructure is not enough – modernization is also required.** (**A Choice between Investing in Canada's Future or Disinvesting in Canada's Future**, Derek Burleton)

U.S. cities now receive 27 per cent of their revenues from state and federal governments – almost comparable to European levels, and far above Canada's 18 per cent. Canadian cities must depend on property taxes for 54 per cent of their revenues, while U.S. cities rely

on this inelastic source for only 21 per cent. The provinces are partly to blame, but the federal government's abdication of a role in urban development is stunningly shortsighted. (**The Globe and Mail**, Thomas Axworthy)

From a big city perspective, the largest disadvantage of the property tax is its inability to fully function as a "benefits-based" local tax. **Large cities provide many services to a host of outsiders. At least some of the investment in the capital infrastructure of the city is required to meet the demands of commuters, and many of the services produced by the municipality are also consumed by truckers, tourists, and other visitors. Yet, these individuals do not contribute to the residential property tax base upon which the services and capital stock depend.** (**Big City Revenue Sources: A Canada – U.S. Comparison of Municipal Tax Tools and Revenue Levers**, Casey Vander Ploeg)

What are the Solutions?

There are two basic options to address fiscal pressures, increase revenues or reduce expenditures.

Operating and Capital Expenditures

Since 1990, Regina's general operating expenditures (budgeted expenditures) have increased by about 26.6%. **In constant dollar terms** (after adjusting for inflation), **the change in expenditures is a decrease in general operating expenditures of about 4.6% since 1990.** Operating expenditures are not keeping pace with inflation. For capital expenditures, the growth in the general capital budget since 1990 is about 34.5%. **In constant dollar terms** (after adjusting for inflation), **the change in capital expenditures is an increase of about 1.4%.**

Through a number of initiatives over the last decade **reductions have been made in resources resulting in a staff reduction.** The next table compares the change in staff levels for the Civic Administration and Regina Police Service. The permanent staff complement comparison is from 1991 to 2002, and the comparison for casual staff is from 1997 to 2002.

Comparison of Staff Complement

	1991	2002	Change
Permanent Staff:			
Civic Administration	1,551.0	1,480.0	(71.0)
Regina Police Service	440.0	473.0	33.0
Total Permanent Staff	1,991.0	1,953.0	(38.0)
	1997	**2002**	**Change**
Casual Staff:			
Civic Administration	313.3	281.8	(31.5)
Regina Police Service	19.6	24.4	4.8
Total Casual Staff	332.9	306.2	(26.7)

Following the release of the Canada West Foundation report, **Dollars and Sense: Big City Finances in the West, 1990-2000**, the author, Casey Vander Ploeg was interviewed for an article in the ***Leader Post*** (Tuesday, October 23, 2001). Statements in the article either referenced to Mr. Vander Ploeg or the report are outlined below.

> **To a greater degree than any other large community in Western Canada, the City of Regina has struggled with revenues that have failed to keep up with growth and inflation.**
>
> **This city [Regina] might be facing some of the toughest fiscal challenges of all the large cities in the West.**
>
> **In 1990, real per capita program spending was $856 per person while in 2000 it had dropped 10 per cent to $771 per person.** A 10 per cent drop is not a small reduction. It simply indicates the city has been unable or unwilling to maintain its spending on programs and services since 1990.
>
> **The decline in real per capita spending on capital** – roadways, bridges, sewage systems, water treatment, streetlights and sidewalks – **has been even more dramatic. In 1990, the city spent about $211 per capita in inflation adjusted dollars. By 2000, the city spent about $172 per capita, a reduction of 18 per cent.**

In the general operating budget, the cost of existing services is increasing due to the cost of negotiated or arbitrated salary and wage settlements, increases to provide services to an expanding community, and other general or specific expenditure increases. At the same time, revenue growth is limited.

In the general capital program, even if funding levels can be maintained, there is a substantial shortfall in terms of the funding needed to sustain the current base of capital assets and infrastructure. The major concern for the City is the availability of funding to maintain and replace its capital assets. This includes infrastructure such as roadways, sidewalks, bridges and traffic signal systems, along with other assets such as buildings and vehicles.

There is limited opportunity to reduce expenditures and maintain the existing services and service policies. However, there is a continual challenge to ensure that efficiencies are sought, and policies and programs are effective. Council has choices it can make on services and service policies.

In looking to the future, the following points are noted:

- **Expenditures must increase to maintain and replace capital assets**. The longer the delay to increase capital spending the greater the long-term cost. As an example, the cost to reconstruct a roadway is likely four times as great as the cost to recap a roadway. The time it takes a roadway to deteriorate from a stage where recapping is possible to the stage where reconstruction is required, can be very short.

- **The public (individuals, organizations and businesses) will pay for the increased capital expenditures.** The question is not if the public will pay, but rather how. Will the

public pay through increased property taxes, new taxes or levies introduced at the local level, a sharing of provincial and federal taxes such as fuel tax or through increased grants from the provincial and/or federal governments?

Operating Revenue and Capital Funding

The following comments detail the thoughts from the various reports noted earlier in the document.

> The challenge for western Canadian municipal, provincial and federal governments is to find the funding mechanisms to ensure that city services and infrastructure are able to keep pace with urban growth, while at the same time protecting local government autonomy. This will require considerable shifts in provincial and federal attitudes toward the role and status of municipal governments. (**Dollars and Sense: Big City Finances in the West, 1990-2000**, Casey Vander Ploeg)

> **Provinces also need to provide access to more adequate sources of revenue. But if well operated, highly livable, and appropriately financed cities are the comparative advantage of the 21st century, siding with the status quo could be even more ugly. The status quo means that Canadians and their mayors, premiers, the prime minister and Canada's many city councillors, MLAs, and MPs have chosen to preside over a slow and gradual, but steady and inalterable decline in the quality of life and the standard of living now afforded by this country.** (**Framing a Fiscal Fix-Up: Options for Strengthening the Finances of Western Canada's Big Cities**, Casey Vander Ploeg)

> The new funding sources that would be most desirable on a long-term basis are those that pass the tests of reliability, accountability, transparency, administrative simplicity, efficiency, and equity. (**A Choice between Investing in Canada's Future or Disinvesting in Canada's Future**, Derek Burleton)

> A vital component of TD Economics' proposal involves providing cities with access to new sources of funds. The fiscal challenges facing cities are twofold. First, they must close the large infrastructure gap that has opened up in recent years, as federal and provincial governments downloaded responsibilities, without granting cities a parallel increase in their revenue-raising capacities. Second, cities must secure access to a stable and reliable revenue source to fund their ongoing activities. (**A Choice between Investing in Canada's Future or Disinvesting in Canada's Future**, Derek Burleton)

Property tax growth (excluding growth through mill rate increases) is not sufficient to fund operating and capital expenditure requirements. In comparing Regina's expenditure growth and the growth in taxes, the following points are noted:

- The increase in the General Operating Budget in 2002 over 2001 was about $7.0 million. Projections for 2003 are for an increase in the General Operating Budget of about $12.7 million, although the figure will likely be less once the budget process is finished.

- Since 1997, the average annual supplementary assessment for new single family and condominium properties is about $27.3 million per year. In 2002, for this group of properties, supplementary assessments totaled $34.7 million. **Based on the 2002 assessment increase, on an annual basis, the increase in the municipal property tax of the new residential properties is about $562,000.**

- Over the past 12 – 18 months, there have been four major new commercial developments. These are the two new Superstores and the two new Walmarts. **The municipal share of the annual property taxes on these developments (including ancillary stores on the same properties) is about $1,025,000.**

The combination of the annual taxes (municipal share only) on the new residential properties and the four major new commercial properties is slightly less than $1.6 million per year. Based on the 2002 expenditure increase, **assessment growth would have to more than four times greater to generate a revenue increase sufficient to offset the expenditure increase.**

In October 2002, SaskTrends Monitor prepared an analysis, at the request of the City, of the taxes or development charges generated by a generic retail development. The analysis examined both the taxes and development charges for the initial development of a new building, and the estimated taxes generated through the ongoing operation of the new business.

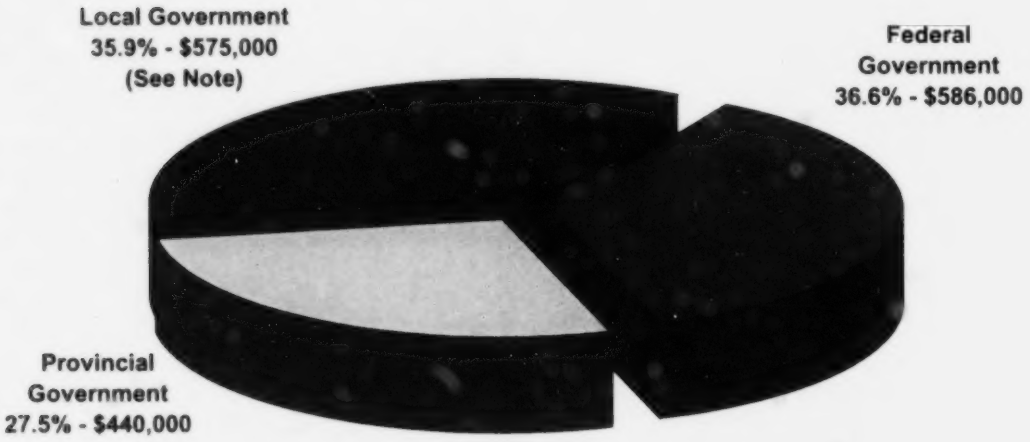
The generic retail development used for the analysis is a 125,000 square foot building with a capital cost of $50 per square foot, including sitework. The total building cost is $6.25 million. The estimated gross income of the retail store is $33.9 million.

The one-time taxes and development charges include the building permit, development charges levied by the City, GST, PST and the income taxes on those (companies and employees) building the new store. The one-time taxes and development costs are estimated to be $1,601,000.

The ongoing taxes are property taxes, GST and PST on the sale of goods, corporate income taxes on the profits and income taxes on the employees working at the store. Annual taxes are estimated to be $4,946,000.

The next two graphs show the distribution of the initial (one-time) taxes and development charges, and the distribution of the ongoing taxes.

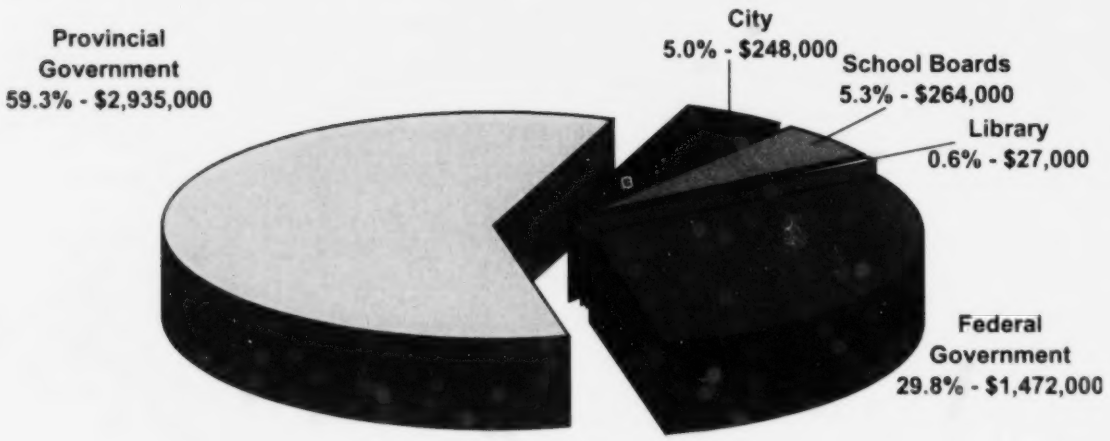
Distribution of One-time Taxes and Development Charges
(Sample New Retail Development)



Note – The City would incur costs for development of infrastructure to service the site, with the costs offset in part by the development charges received.

In the above graph, the local government share would be entirely for the City and would include the building permit and development charges levied pursuant to *The Planning and Development Act*.

Distribution of Ongoing Taxes
(Sample New Retail Development)



While commercial developments result in additional taxes and other revenues for the City, the majority of the added revenue flows to the federal and provincial governments.

TD Economics examined options for new funding arrangements for municipalities. The options were grants and new revenue arrangements for municipalities. The options were rated on a scale of 0 to 4, where 0 was the least desirable and 4 was the most desirable. A summary of the options and ratings is as follows:

- The first option was **grants from federal and provincial governments**. The advantage noted was that grants were inexpensive to administer. The disadvantages were a lack of accountability, grants are an unreliable funding source, and the overall tax burden would rise. TD Economics rated this option 1.

- The second option was to **transfer to cities a portion of federal or provincial revenues**. The advantages were that the transfers would be inexpensive to administer and that the transfers would provide sufficient growth if the tax were ad-valorem. The disadvantages are the lack of accountability, potential unreliability, and an overall rise in the tax burden. TD Economics rated this option 2.

- The third option was to **levy a municipal tax within existing federal or provincial tax structures**. Within this option there were two approaches considered, the first (a) where cities could not set the tax rate unilaterally and the second (b) where cities could set the tax rate unilaterally. In each approach, the tax base would be the same for the municipal tax as for the senior government tax, and existing tax collection entities would collect the tax. The advantages of these options were excellent accountability, inexpensive to administer and sufficient growth potential. TD Economics rated option (a) 3, and option (b) 4.

- The fourth option was for **cities to be given free rein to levy their own tax**. This would involve cities setting tax rates unilaterally, defining the tax base and collecting the tax. TD Economics rated this option 0.

TD Economics also went further in their report to compare types of taxation. Three options were examined. A summary of the options and ratings (using the same scale as the above analysis) is as follows:

- The first option was a **city income tax on personal and corporate income**. TD Economics rated this option 0.

- The second option was a **city excise tax on products or services such gasoline, tobacco or hotels**. TD Economics rated this option 4.

- The third option was a **city sales tax**. TD Economics rated this option 3.

The report by TD Economics supports providing additional authority for revenues, with the preferred approach being through either a sales or excise tax.

If there is going to be a change in the revenues available to cities, the fundamental questions to answer are:

1. Do cities want money (grants) or do they want authority?

2. What is the Province prepared to provide?

While the questions are simple, **the difference between grants and authority is profound.** If authority is provided, cities have the ability to make choices with respect to how the revenue is to be generated to meet operating and capital requirements. **With the authority comes accountability**. If grants (money) are to be provided, there will be an annual debate about the level of grants. Provincial fiscal pressures and local fiscal challenges will inevitably collide.

The following are comments on the issue of grants as the solution to the fiscal pressures faced by cities.

> An option favoured by many advocates for cities is to have the federal and provincial governments increase grants to their municipalities. We believe that grants can be a useful tool for addressing cities' existing infrastructure gap. In fact, a legitimate argument can be made that federal and provincial governments have an obligation to provide one-time grants to municipalities to help fill the financial hole created by downloading. **However, as an instrument to deal with cities' ongoing financing needs, grants fail miserably** – above all, because they leave municipal governments at the mercy of the shifting priorities of federal and provincial politicians and bureaucrats. **What cities really need is access to an ongoing revenue source.** (**A Choice Between Investing in Canada's Future or Disinvesting in Canada's Future**, Derek Burleton)

The following sections consider specific funding sources, a hotel tax, a local sales tax, a share of gaming revenues, a local vehicle surcharge and a local fuel tax.

Hotel Tax

A hotel tax has been suggested as an option for funding local costs that are linked to the tourism industry. While hotel taxes are common in the U.S., they are less common in Canada. Both British Columbia (10% tax, with 2% for municipalities) and Alberta (5% tax) have a hotel tax. In British Columbia, there is no PST charged on hotel rooms and Alberta has no PST. PST is charged on hotel rooms in Saskatchewan, Manitoba, Ontario, and Quebec. In Atlantic Canada, the HST (the harmonized GST and PST) is charged on hotel rooms.

In a provincial statistical publication, the total receipts for hotels, motels and other accommodation industries in Saskatchewan in 1997-98 was almost $461 million. Each one percent hotel tax would generate about $4.6 million based on the 1997-98 data.

While a hotel tax may have some merit, based on the proceeds being dedicated to pay for tourism related costs, such a tax would not address the fundamental fiscal issues facing cities.

Local Sales Tax

In the 2002-03 Provincial budget, the estimated revenue from sales tax is $826.9 million. Based on the 6% PST rate, each one-percent of sales tax generates about $137.8 million. If authority was provided for either a tax sharing of the Provincial Sales Tax, or the ability for municipalities to have a local sales tax added to the Provincial Sales Tax, there would be a substantial revenue base available to municipalities.

Share of Gaming Revenues

The City receives property taxes from Casino Regina, but does not share in gaming revenues. In other provinces municipalities receive a share of gaming revenues, whether those revenues are from VLT's or casinos. Examples include:

- Kelowna – The operation of the casino in Kelowna is under the jurisdiction of the British Columbia Lottery Corporation (BCLC). BCLC has an operational services agreement with a private company to operate the casino. The City of Kelowna receives 10% of the net revenues. The net revenues are the gross revenues taken in, less the payments to players, the service provider (private company) expenses, and BCLC administrative and operating costs. Kelowna budgeted to receive $1,650,000 in 2002. The funds are to be used "for any purpose that would be of public benefit to the host communities".

- Winnipeg – The City of Winnipeg receives an annual Urban Development Grant from the Province for a portion of the video lottery terminal revenues collected. This grant is an unconditional grant equal to 10% of the net revenue earned from VLT's in the municipality. The amount for Winnipeg in 2001 was $7,367,000. The Province earmarks an additional 25% of the net revenue for rural and urban economic development. Funds can go to organizations in Winnipeg. Funding to the City of Winnipeg through this portion of the program is $2,000,000 to fund the Winnipeg Police Service Agreement. The casino also pays property taxes, but is exempt from business tax. There is also the equivalent of an amusement tax on entertainment at the casino. There is no estimate of the amount of the amusement tax.

- Windsor – Based on an agreement between the City of Windsor and the Ontario Casino Corporation, the City of Windsor receives $2.6 million per year from 1998 to 2007, and $3.0 million per year from 2008 to 2017. The payments are unconditional. The City also receives grants in lieu of property taxes on the casino which are equivalent to the property taxes that would be paid if the property were privately owned.

- In Ontario there is a program called the Ontario Racetrack Slot Machine Program which provides for a payment of 5% of net winnings (net of total wagered less prize payouts) to the municipality in which the racetrack is located.

Local Vehicle Surcharge

In a provincial statistical publication, the number of vehicles registered in Saskatchewan in 2000 was 716,723. It is estimated that about 135,000 vehicles are registered in Regina. The 2002-03 Provincial budget included projected revenues of $116.9 million from motor vehicles. Based on the number of vehicles registered in 2000, the average amount per vehicle is $163.10.

The costs of transportation infrastructure are significant for municipalities. The only local revenues that currently come from users of the transportation system are parking fees, transit revenues and fines for traffic and parking violations. One option for a "user fee" for transportation costs is a vehicle surcharge. Authority for a local vehicle surcharge would create a substantial potential revenue source for municipalities. A fee of $50 per vehicle would generate about $6.75 million for Regina.

Local Fuel Tax

The provincial and federal governments levy a fuel tax. The provincial fuel tax rate is 15¢ per litre. The federal fuel tax rate is 10¢ per litre. The federal government also receives GST on the price of fuel (GST is not paid on the fuel tax portion of the cost).

In 2002-03, the Province budgeted to receive $357.7 million from fuel tax. The majority of fuel tax is for gasoline and diesel fuel. The revenue projection is net of rebates provided by the provincial government.

In terms of the portion of the fuel tax generated in Regina, the following points are noted:

- **In 2001, the City estimated that provincial fuel tax collected in Regina was $70.0 million, with a further $45.0 million in federal fuel tax.**

- In a report on alternate revenue sources prepared for the City of Saskatoon by the College of Commerce at the University of Saskatchewan, the estimated provincial fuel tax collected in Saskatoon was about $51.1 million. Based on that figure, the federal fuel tax would be about $32.0 million.

Municipalities do not have access to the details necessary to provide a specific estimate of the fuel tax collected in each municipality. Each one-cent of the provincial fuel tax generates about $23.8 million in the Province. In addition, the federal government is also generating fuel tax revenue.

In other provinces, there are examples of municipal fuel taxes or a sharing of fuel tax revenue with cities. Examples include:

- In Alberta, Calgary and Edmonton receive 5 cents per litre of fuel sold in the city. Other municipalities do not receive a share of fuel tax revenue, but they do receive a per capita capital grant.

- The Greater Vancouver Regional District (GVRD) levies a fuel tax of 4 cents per litre on fuel sold in the GVRD area. The GVRD also has a vehicle tax.

- Victoria and Montreal each levy a fuel tax of 1.5 cents per litre.

A public survey conducted by the City of Regina in July included questions on fuel tax. Those surveyed were advised that the senior governments collect 25 cents in fuel tax for every litre of gasoline sold. People were then asked certain questions related to how the fuel tax was spent. The questions and responses are highlighted in the following table.

Public Survey Results on Fuel Tax	
	Responses
Should fuel tax be spent on highways, streets and roads?	85% Strongly Agree
Should municipal governments receive a portion of the fuel tax collected?	88% Responded "Yes"

Municipal access to fuel tax has been endorsed by many of the individuals and organizations as evidenced in the following comments.

> Gasoline taxes are a user fee and should be earmarked primarily for roadway and highway maintenance and improvement. In many cases the tax take far exceeds roadway expenditures. In particular, the federal government has reaped the revenue windfall, but has provided only token support for roadway spending. This must change. (**Filling the Infrastructure Gap**, Canadian Taxpayers Federation)

> As a vital part of our economy and daily lives, Canada's roads are under serious pressure. In particular, **municipalities are now bearing the greatest brunt of road usage**. Municipal roads and inter-city expressways require funding to meet projected road renewal demands. (**Filling the Infrastructure Gap**, Canadian Taxpayers Federation)

> **Of the alternatives that are generally viewed as possible supplements to – not substitutes for – property taxes, access to a municipal fuel tax would make considerable economic and political sense, especially in large urbanized areas with severe traffic congestion.** (**Municipal Finance in a New Fiscal Environment**, Harry Kitchen)

> Many US jurisdictions levy fuel taxes, but they are fairly new to Canadian municipalities. The revenues generated from these taxes are generally earmarked for local roads and transit services in those cities. The fuel tax, although not exactly like a user charge based on marginal cost, is generally viewed as a benefits-based tax. And it has considerable merit as a means of funding roads and transit. (**Municipal Finance and the Pattern of Urban Growth**, Enid Slack)

> **Canada's public road network extends about 900,000 kilometres.** Only about 15,000 km are owned and maintained by the federal government. Some 231,000 km of the national network are owned by provinces and territories, mainly higher-capacity primary or secondary highways. **The remaining 655,000 km are owned and maintained by municipal governments, including streets and arterials in towns and cities, as well as the extensive sub-network of rural access roads.** (**Vision and Balance, Canada Transportation Act Review**, Transport Canada)

Clearly, governments are collecting more road-related revenue than they are spending directly on roads. The focus of the policy debate over road funding is that the federal government receives the largest part of the excess revenue: its revenues from road fuel taxes are $4 billion or more, while its recent annual spending on roads has been only about $200 – $300 million. Together, then, the other levels of government are receiving about $10 billion in direct revenues but spending nearly $2 billion a year more than that. **That shortfall is made up by local property taxes**. (**Vision and Balance, Canada Transportation Act Review**, Transport Canada)

The key to restoring and sustaining a federal role is a tax dedicated to urban infrastructure. The turnaround in U.S. cities began with the Surface Transportation Act that dedicates U.S. gas taxes to highways and urban transit. More than 80 per cent of the federal take from gas taxes goes back to the cities for roads, subways and bridges. The cities know that $100-billion has been earmarked for urban transportation over the next six years. In Canada, the federal government collects nearly $5 billion annually in gas taxes and returns only 4 per cent of that to the cities and provinces for transportation. (**The Globe and Mail**, Thomas Axworthy)

The federal government should dedicate all returns from the gas tax for infrastructure needs. A tripartie matching formula with the provinces and municipalities would provide an annual infrastructure fund of $15 billion. Priority projects in urban transit, social housing and water treatment environmental protection would be decided jointly by the three levels of government, giving our cities real power. Liveable, safe, planned cities could be Canada's greatest asset in the competitive world of the 21st century. (**The Globe and Mail**, Thomas Axworthy)

Conclusion

It is clear that cities do not have the revenue capacity to sustain the type of urban community envisaged by the **Partnership for Prosperity – Success in the New Economy** document released in 2001 by the Province of Saskatchewan.

One choice is to continue the trend of the last decade, where the lack of revenue growth for cities has essentially lead to a reduction in spending on programs and capital. Continuation of the trend is surely counter to the "vital economic catalysts" or "vibrant clusters of businesses, research institutions and entrepreneurs" envisaged by the provincial strategy.

Another choice is to force municipalities to use existing sources of revenue, namely property tax, to fund the increased costs. The economic strategy sees Saskatchewan as a competitive place to do business. Property taxes are one component of the costs faced by business. **Saskatchewan already has relatively high levels of property tax compared to other communities, particularly those in Alberta.** Forcing municipalities to increase property taxes further exacerbates the problem.

The issue of the financing of cities has received considerable attention over the past 12 – 24 months. The Federal Throne Speech has recognized the need to invest in cities. **The**

Province must be an advocate for city issues on the federal stage. In addition, there is a need for the Province to move forward with specific policy decisions to address the fiscal pressures faced by cities.

The preferred route for the City of Regina is expanded authority rather than expanded grants. As evidenced by earlier analysis and discussion, diversity of revenue sources is the key. The combination of revenue options that need to be considered include sharing of the Provincial Sales Tax and gaming revenues, or authority for a local hotel tax, a local vehicle surcharge or a local fuel tax.